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SUBJECT: CAN ALL THE KINGS MEN PUT SIMEON BACK TOGETHER AGAIN?

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Classified By: CDA Jeff Levine, reasons 1.4(b) and (d).

¶1. (C) Summary: Rocked by scandal and feeling betrayed by his partner in the governing coalition, former Prime Minister and boy-king Simeon Saxe-Coburg Gotha is facing increasing frustration from his party's members, who fear his decline could spell an end to the party. The scandal -- which originated in Italy)) involves allegations that Simeon and his party accepted money in exchange for awarding government contracts to his cousin, Italian Prince Victor Emmanuel, and businessman Pierpaolo Cerani. For now, Simeon's coalition partners have refrained from passing judgment on his culpability. For the public, however, the scandal marks the symbolic end to Bulgaria's fairy-tale affair with its former King, who once was believed to be above corruption. Meanwhile, tensions between the Socialists and Simeon have reportedly escalated dramatically over a report issued this week by the parliamentary committee looking into the legality of the restitution of more than 300 million dollars worth of real estate to the former King. Despite Simeon's problems -- or perhaps because of them -- the three-party coalition appears stable in the short term. However, centrifugal forces may start to build after Bulgaria enters the EU next year. End summary.

SIMEON ENTANGLED IN ITALIAN SCANDAL

¶2. (SBU) The scandal emerged following the arrest June 17 by Italian authorities of Prince Victor Emmanuel, Simeon's first cousin, on charges of forgery, corruption and bribery, organizing prostitution and the trafficking of women, and suspected links to the mafia. Among the specific accusations against Emmanuel was participation in corrupt schemes to receive government contracts in the Bulgarian health and telecommunications sectors. The Italian press after his arrest released a number of conversations between Emmanuel and Italian businessman Pierpaolo Cerani)) secretly recorded by Italian authorities)) in which the two discuss payments made to Simeon and his party, and the need for greater political support in order to win projects in Bulgaria. Although none of the contracts were successfully realized, Simeon and members of his party pushed intensely for the construction of a children's hospital before the project was stopped by parliament and investigated on suspicion of corruption.

¶3. (SBU) Cerani in the recordings speaks about how much money he has already passed around in Bulgaria without any result. In one conversation, Emmanuel suggests that Simeon may be blocking projects because he has not received direct financial support. Cerani responds that this is not true because "I have offered him money and I gave him money for the elections. Remember, I went to Bulgaria to bring it (the money) to him? He took the money and lost the elections." Cerani later explains that he knows though what Simeon wants -- either a plane or assistance in selling a piece of his restituted property worth some 100 million Euro. From the tapes it is also clear that Cerani paid for the travel of different ministers from the National Movement for Simeon the Second (NMSS) and for Simeon, who as prime minister traveled in Cerani's personal plane to Milan to attend an opera. In an apparent effort to protect Simeon's credibility, Cerani is now claiming the conversations in the tape concerning Simeon are all a lie and that he invented the information in an effort to please Emmanuel.

¶4. (SBU) The project in Bulgaria that Cerani and Emmanuel lobbied the most intensely for was the construction of a children's hospital. Simeon and a majority of NMSS parliamentary deputies during his government (2001-2005) vigorously pushed to conclude the project despite claims from the opposition that the deal was economically unsound and corrupt. As happened with the infamously opaque Trakiya highway project, the Council of Ministers under Simeon decided in February 2004 to award the hospital contract to an Austrian firm (Cerani holds an Austrian passport), Vamed Engineering, without a tender. The price tag for the hospital was spectacularly expensive)) 42.7 million Euro)) which was seven times more expensive than similar hospital projects in other countries, according to critics of the deal. Eventually NMSS' efforts to gain approval for the hospital were blocked by parliament, which established a

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special commission to investigate the project. From the wiretapped conversations it is clear that Cerani and Emmanuel thought Simeon could assist them in winning new projects under the current government.

A SOCIALIST STAB IN THE BACK

¶5. (C) Adding to Simeon's woes, the special parliamentary committee charged with looking into the legality of the restitution of his family's royal property -- reportedly worth some 300-400 million dollars -- leaked a draft report this week saying that parliament must approve new legislation to validate the restitution. The BSP rank-and-file have long resented the restoration of royal property, and the party campaigned on a platform of reviewing the legality of the transaction. However, one of Simeon's close confidants told us as the government was being formed last year that holding onto his property was a condition for the NMSS' participation in the government. The NMSS argues that a 2001 Constitutional Court decision invalidating the 1947 law on confiscation of royal property is sufficient basis for restitution. According to deputy NMSS leader and former Finance Minister Milen Velchev, there was tacit agreement among the coalition partners at the time the committee was formed that it would uphold this interpretation. In fact, holding onto his property was reportedly a condition for Simeon's entry into the coalition last year.

¶6. (C) This arrangement has been upset by the head of the commission, Socialist MP Plamen Rantchev, who drafted a chairman's report and then circulated it to the full committee before getting the approval of the other two coalition partners. The report said that, while the Constitutional Court decision did indeed nullify the 1947 law, there was nothing to take its place and therefore no legal basis under which to restitute the property. If this

view holds, it means that the National Assembly will be able to reopen the entire question. Not surprisingly, the opposition immediately leaked the report to the press. Velchev said he personally called Simeon to give him the bad news, and that the former PM was livid.

SIMEON'S POSTSCRIPT?

¶7. (C) The Italian scandal seems to have further diminished the NMSS' already anemic standing in polls. The party's popularity already has been declining monthly from 20 percent last summer during the elections to around four percent (the threshold to enter parliament) now. This fading support is the result in part of NMSS' alliance with the Socialists, which has muddied its centrist identity and estranged former supporters. Many of the talented technocrats within the NMSS are growing increasingly frustrated with Simeon's weak leadership and continuing tendency to take all important decisions himself. The upcoming presidential elections represent an opportunity for NMSS to distinguish itself from the Socialists and raise its own profile, according to deputy NMSS leader Velchev. Simeon himself would have little hope of winning the election and is unlikely to risk his already tattered personal prestige in a long-shot race against incumbent President Parvanov. Velchev confirmed, however, that the NMSS will likely nominate a candidate in an attempt to restore its identify. Former Foreign Minister Solomon Passy told us the party leadership is leaning toward either Education Minister Daniel Vulchev or former Defense Minister Nikolai Svinarov.

¶8. (C) The Italian scandal, more than any past controversy involving NMSS, symbolizes a clear end to Bulgaria's fairy tale affair with its former King. When Simeon reemerged on the political scene in Bulgaria five years ago, he was portrayed as the last moral authority in politics. His "immense wealth" supposedly made him incorruptible, and he was seen as a fresh alternative to the parties and politicians of post-communist Bulgaria who appeared interested only enriching themselves. Despite some very real successes by Simeon's government, this image has largely dissolved amid accusations of corruption. For many Bulgarians, the Italian scandal, coming as it does after Simeon fought to recover large tracts of the most valuable

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real estate in Bulgaria, has confirmed their suspicions that Simeon was never any different from the generation of Bulgarian politicians who came before him, and that his return to Bulgaria was principally to serve his own interests. He is, to put it bluntly, a carpet-bagger.

COMMENT: WILL THE COALITION SURVIVE? DOES IT MATTER?

¶9. (C) Speculation abounds that the NMSS will pull out of the ruling coalition after the government accomplishes its stated raison d'etre of EU accession. NMSS MP and former deputy Defense Minister Ilko Dimitrov told us recently that the current crop of NMSS deputy ministers are "tired of doing all the work and getting none of the credit." Socialist MPs with whom we have spoken dismiss the prospect that the NMSS will bolt the coalition, pointing that the NMSS is on the ropes electorally and has no alternative -- other than political oblivion -- to the current government.

¶10. (C) Indeed, if it forces new elections under current circumstances, the NMSS runs a very real risk of not even making it over the four percent threshold into parliament. Deputy NMSS leader Velchev, however, said his party is seriously considering leaving the coalition next year, but is calculating that the government would survive as a two-party coalition by scrapping together a few additional votes (BSP

and MRF together have 116 votes in the 240-member parliament). This would give the NMSS time to rejuvenate itself outside of the Socialist's shadow, or so the theory goes. Velchev added that there is a "natural affinity" between the NMSS and Sofia Mayor Boiko Borissov's GERB movement, which could serve as a landing pad for NMSS electable members.

¶11. (C) Political scandals tend to have a short life cycle in the Bulgarian press, but the Italian scandal may have longer legs because it comes from outside and is therefore harder to control. The effect of the scandal on the coalition ultimately will depend on the strength of the evidence against Simeon and the willingness of coalition members to act on the evidence if Simeon is implicated in wrongdoing. The coalition would be hard-pressed to ignore blatant abuses of power if they came to light, but they still might choose to shield Simeon for the sake of stability. The issue of the King's property, if not resolved according to the wishes of the NMSS, could have a more corrosive effect on the coalition than the Italian scandal if it pushes Simeon toward the door of his own accord. END COMMENT

Levine